



M e m o r a n d u m

To: Panel Members

Date: December 13, 2001

From: Peter DeMauro, General Counsel

File: Newpolicy001mem2

Subject: EMPLOYER CONTRIBUTIONS: NEW HIRE TRAINING ISSUES

In May 2001, the Panel approved a policy requiring all employers receiving retraining funds to contribute towards the project costs, with new-hire and Welfare to Work projects being exempt from the contribution requirement. At its October 2001 meeting, the Panel requested that staff revisit the policy to determine whether contributions should also be required of participating employers in new-hire contracts where contractors train unemployed workers who are then placed and retained in employment with employers who need their skills.

The issue was discussed further at the November 2001 Panel meeting, with Panel members expressing concern over the usual high cost of training for unemployed workers, relative to the return on that investment. In many cases, high-cost new hire training is for occupations such as certified nursing assistants where turnover is high and wages are low.

ETP's role in funding training for unemployed workers has changed over the years. Early in the program's history, approximately 50 percent of funds went toward the training of unemployed workers. Over time, however, funding for new-hire training has significantly decreased, given the availability of other funding sources and the high demand for retraining funds. As a result, the Panel's unique training niche in the California economy is its support for retraining of incumbent workers in businesses in industries faced with out-of-state competition; its role in funding new-hire training has been more limited.

The Panel recently reviewed criteria pertaining to all multiple employer contracts (MECs), including those providing new hire training, and adopted an MEC policy, effective August 2000, that strengthened criteria for new-hire projects. As a result, the Panel now supports only new-hire training which is industry specific or for specialized occupations. The Panel does not fund cross-industry, generic training available to the general public and funded by many other sources.

A review of ETP funding for new-hire training indicates the following:

- New-hire projects now make up less than 10 percent of total ETP funding, while more than 90 percent of training funds have been provided for the retraining of incumbent workers.
- The Panel has typically funded new-hire training for CNC machining, computer services, computer skills, truck driving, medical services (e.g., certified nursing assistants), and construction.
- Completed contract data for the past four years shows that new-hire trainees have averaged wages of \$10.49 per hour after completing training and the 90-day employment retention period, exceeding the ETP minimum required wages for the same period.
- Those new-hire trainees earning less than \$9 per hour have typically been in entry-level hospitality and service industry jobs.
- Currently, there are 7 new-hire projects in development, totaling approximately \$5.3 million. Of these, 4 projects are being submitted for the December Panel Meeting (totaling approximately \$4.1 million). The remaining projects (totaling approximately \$1.2 million) are in early stages of development. One project will train truck drivers. One project will provide training for clerical workers, food service workers, health care workers, sales workers, and production workers. A third project will provide training for telecommunications line installers and repairers.

Under its 2001-02 Strategic Plan implementation schedule, the Panel plans to address the issue of new-hire training in May 2002. This policy hearing will focus generally on ETP's role in funding new-hire training, while also addressing the issue of employer contributions. However, given the Panel's interest in the issue of employer contributions in new-hire projects, it may be advisable to move this policy discussion to an earlier date. In the interim, until the Panel is able to fully review and address its role in funding new-hire training, it may wish to proceed under one of the following options.

Option 1: Continue funding new-hire projects, however, amend the Panel's Employer Contributions policy to require contributions in new-hire projects as proposed in the attached policy discussion draft (Attachment 1), which allows for certain contributions from new-hire employers during the employment retention period.

Option 2: Continue funding new-hire projects under current requirements, where employer contributions are not required in new-hire projects.

Option 3: Place a moratorium on future funding of new-hire projects after the December Panel meeting, with the following exceptions:

- Given the Panel's commitment to the California Career Ladders to the 21st Century program, allow Career Ladder projects, developed in conjunction with the Employment Development Department, since they are now recognized under the Job Creation category for Panel funding. Under the Career Ladders program, employer commitment (in addition to any monetary contribution to the training) is demonstrated through wage increases and promotions for successful Career Ladder trainees, and resulting job openings as a result of the job promotions.
- Allow new-hire projects in industries impacted by the September 11 terrorist attacks, given the recent set-aside of \$10 million for training in industries such as tourism, transportation, and security that were severely affected by those events.

Option 4: Place a moratorium on any future funding of new hire projects after the December Panel meeting, with no exceptions.

Proposed Action:

That the Panel direct staff regarding the next steps to take in addressing the issue of employer contributions in new-hire projects.

Attachment

EMPLOYMENT TRAINING PANEL

PROPOSED POLICY DIRECTIVE: DISCUSSION DRAFT

TITLE: EMPLOYER CONTRIBUTIONS

Policy Statement: To demonstrate employer commitment to training, all ETP contracts must include an employer contribution towards project costs. Contribution requirements are specific to the type of employer (single or multiple-employer) and the type of trainee population being served (retrainee or new-hire).

CONTRIBUTION REQUIREMENTS

Single-Employer Requirements:

- Single-employer contractors with 100 or fewer employees must contribute 50 percent of the ETP- funded amount.
- All other single-employer contractors must contribute at least 100 percent of the ETP-funded amount.

Multiple-Employer Contractor (MEC) Requirements:

- All MECs must contribute at least 50 percent of the ETP-funded amount.
- The employer contribution is determined based on the sum of all employer contributions to the contract as a whole, rather than individual contributions from participating employers. Although it is the contract as a whole that must meet the contribution requirement, individual contributions should be made by as many of the participating employers as possible.

CONTRIBUTION COSTS

The following chart identifies allowable costs for the purpose of meeting employer contribution requirements.

EMPLOYER CONTRIBUTIONS		
	Allowable Contribution Costs	Unacceptable Contribution Costs
New-Hire Projects	<ul style="list-style-type: none"> Costs associated with additional, customized training provided to previously unemployed workers (new-hires) after completion of training and during the employment retention period - including trainee wages and fringe benefits paid during this additional training. 	<ul style="list-style-type: none"> Costs associated with training that is (1) mandated by law or government agencies or (2) provided specifically to meet government requirements (i.e., Department of Motor Vehicle testing and licensing, Department of Transportation physical exams and drug screening tests, required safety courses).
Retrainee Projects	<ul style="list-style-type: none"> Project development and training needs assessment. Wages and fringe benefits paid to trainees during training. Facilities and equipment costs that are directly attributable to the ETP training (for single employers, these facilities must be leased solely for the training project). Training materials, such as books and supplies. Training for company personnel receiving ETP training courses, but who are not eligible trainees. On-the-job training, which is tied to ETP class/lab training, but not included in ETP funding. Excess cost of staff and/or subcontractors performing training or administrative activities, at a higher cost than ETP is funding. Ongoing training assessments, including literacy. The cost of replacement workers to cover times when employees are in training. Lost production time resulting when trainees are taken off the production line (and who are not replaced by other workers) while in training. 	<ul style="list-style-type: none"> Deposits charged by MECs to employers to ensure trainee participation. Substantial Contributions.

Reference: Unemployment Insurance Code Sections 10205 (d) and 10206 (b); and Title 22 California Code of Regulations: Section 4400 (l), Definitions; Section 4409.1, Employer Contributions